

Discussion of Alfaro-Ureña et al.:
Responsible Sourcing? Theory and Evidence from Costa Rica

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Summary of the Paper

Multinational firms have adopted recently Responsible Sourcing requirements

- ... imposing minimum requirements on work conditions on their suppliers in developing economies
- ... which increase supplier's marginal costs

- How were suppliers in Costa Rica affected by these requirements?
 - Great merged database of multinational firms operating in CR
 - ... including transactions with their local suppliers (sales)
 - ... and information on the suppliers' employment and wages
 - Heterogeneity in rollouts of RS requirements key to identify effects
- What can we say about welfare effects => structural model

Main Results

Firms exposed to Responsible Sourcing rollouts in Costa Rica

- ... reduce their (total) sales and employment
- ... but increase the earnings of their workers
- ... especially for low-wage workers

- Ambiguous welfare effects

- Terms of trade improvement (akin to export tax)
 - ... and productivity gains for suppliers
- vs local price increases
 - ... and labor market distortions
- The authors find with the model a net positive welfare gain

About the Structural Model

The model is a large, static, general equilibrium, trade model with

- ... multinational firms
- ... intermediate goods
- ... monopolistic competition
- ... and possible monopsony in labor markets

- Great accounting framework, but several economic margins exogenous
 - Responsible Sourcing adoption
 - Productivity improvements
 - Pass-through to domestic prices
 - The effects are carefully estimated, but perhaps not fully micro-founded